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FOREIGN SERVICE DESPATCH

FROM: AMEMBASSY, GUATEMALA — DESP. NO. 725

TO: THE DEPARTMENT OF STATE, WASHINGTON. — DATE: February 20, 1953

REF: -- F790004-1337

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SUBJECT: WEEKA NO. 8 - ECONOMIC SECTION

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SECTION II

Business this week remained at the low level which it reached last week following the ousting of the Supreme Court justices and the ensuing clash between police and anti-Government demonstrators, and there were slight prospects of an early revival in the face of the sharpened popular suspicion of the Government. (see Sec. I). However as the immediate tension subsided the Government renewed activity on its economic programs but its moves were marked by confusion, bickering and lack of progress.

The Executive's project for a National Agrarian Bank to provide credit facilities for beneficiaries of the agrarian reform which was submitted to Congress for consideration revealed that Communist-dominated labor organizations would nominate two of the five directors and that the soundness of the proposed bank's financial support was doubtful. Further light was shed on the promotional aspects of the PETEMSA Corporation, a projected Government-private corporation to cut hardwoods in Guatemala's undeveloped Petén region, when Sr. Roberto FANJUL, Minister of Economy, disclosed that the $5,800,000 loan the corporation would seek from the International Bank for Reconstruction and Development (IBRD) would be used for the purchase of machinery, apparently from the parent firm of the Government's private partner, and that the loan would be guaranteed by that machinery.

Agrarian Bank

A National Agrarian Bank (BNA) bill which would provide long-term credits to farm workers acquiring land under the Agrarian Reform Law and to other small farmers was sent

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F790004-1338

to Congress this week. The bill was accompanied by a special request from President ARBENZ that it be discussed and approved during the special session which is due to adjourn before March 1. An official press release said that it would "undoubtedly be approved by Congress ... since it is of imperative necessity for the fulfillment of agrarian reform."

The bill provides that the President appoint members of the board of directors from candidates proposed by the National Agrarian Department (DAN), the Monetary Board, the National Farm Workers Federation (CNCG) and the General Confederation of Labor (CGTG). The Bank is to be an autonomous institution and its obligations are to enjoy the unconditional guarantee of the State with a 10-year bond issue to provide $5,000,000 of the initial capital of $5,520,000 (WEEKA No. 6). The bonds, according to the bill, are to be amortized by the excess revenue from taxes imposed in 1947 specifically for the construction of a National Stadium and related athletic activities. The capital is to be increased by $5,000,000 (over an unstated period of time) from the excess revenue from the Stadium taxes after amortization of the original bond issue and with the money remaining from the liquidation of the National Farms organization (FN).

The use of revenue from the Stadium taxes to capitalize the Bank is an instance of the Government's failure to remove a tax when its objective was fulfilled. The law creating the taxes provided for their termination six months after inauguration of the Stadium, which took place in February 1950. The provision for utilizing the funds remaining from liquidation of the National Farms seemed like wishful thinking since the FN reportedly was unable to pay employees their $1,000,000 share of the organization's profits since 1947 because of insufficient funds and Congress was therefore considering a bill to cancel the "annual" profit-sharing plan retroactive to 1947, the year of its inception. Colonel Anselmo GETELLA, head of the FN Liquidation Commission, also announced that the organization's financial burdens were being further increased by about $2,000,000 because of the need to maintain 50 farms which had completed their coffee harvest in January but had not yet been taken over by the National Agrarian Department in accordance with the Agrarian Reform Law although the DAN had been asked to take charge almost a month ago.

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Economic Development

P790004-1339

In answer to press criticism of the proposed PETENSA Corporation to exploit the hardwoods of the Department of El Petén (WEEKA No. 6) Sr. Roberto Fanjul, Minister of Economy, this week said that it would not be the Government but the corporation which would obtain the $5,800,000 loan from the International Bank for Reconstruction and Development (IBRD) and that the loan would be used to buy machinery which in turn would be the guarantee for the loan. The press had previously reported that the Imperial Export Company of New York, parent firm of the New World Hardwood Corporation which is the Government's partner in the PETENSA, specializes in the exportation of machinery but made no comment on Mr. Fanjul's latest disclosure, which seemed to add to the belief that the PETENSA was merely a grandiose promotion scheme.

Objections to the PETENSA charter came from another source when a delegation from the Department of El Petén visited Guatemala City to protest against the small share of the corporation's profits assigned to that Department and to the sale of shares to a foreign company rather than to lumber contractors in El Petén. The delegation conferred with Sr. Fanjul who announced afterwards that he had reached an agreement with the delegation although he could not agree to a substantial increase in El Petén's share of the profits as the program was to benefit the entire country and he still felt that the New World Hardwood Corporation was the most capable firm for handling the PETENSA's sales. However, members of the delegation told reporters they were not satisfied and would continue to press their demands. Meanwhile there was no news as to when the long-delayed signing of the contract would take place.

Lack of progress also featured Congressional consideration of the "luxury tax" bill to finance the Government's $20,000,000 development program (WEEKAS Nos. 6 and 7). There were no reports of committee action to solve the problem raised by clothing manufacturers' protests over the duty increase on rayon cloth and the bill was only mentioned in connection with a charge that a deputy, Sr. Roberto ALVARADO Fuentes, had secretly altered the motion when returning it to committee so that the entire bill would have to be re-studied instead of only two articles.

R. E. Schoenfeld

Rudolf E. Schoenfeld

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